

# ***Buxmont Accountant***

*Buxmont Chapter*

*PA Society of Public Accountants*

**October 2008**

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## E-Mail & Address Changes

Don't miss out on important information regarding upcoming seminars and chapter meetings because you didn't let us know of an email or address change. Notify us of any changes via email at: **info@pspabuxmont.org**



## **FREE SEMINAR DRAWING**

Congratulations!

**Ann Donley**

The winner of a free one day seminar of their choice at the drawing held at the **September** business meeting. The Buxmont Chapter holds a drawing for a free seminar at the conclusion of every business meeting.

## PRESIDENT'S NOTE

Dear Fellow Buxmont Members,

The upcoming October meeting has a timely topic-Local Taxes. This is always an informative one. Your Board of Directors have sent invitations to 26 legislators. The meet and greet sessions will begin with the October meeting. Say hello to:

- Stewart Greenleaf
- Katharine Watson
- Kate Harper

In addition your PSPA has supported the small practitioner at the State and Federal level . Please support the PSPA-PAC by making a contribution at our monthly meetings .

Sincerely,

**Frank Corso**

President Buxmont Chapter

## OCTOBER MEETING

### LOCAL TAX PANEL

Next meeting is scheduled for Tuesday, October 28, 2008

Speaker: Berkheimer and Philadelphia

Place: Williamson's Restaurant Willow Grove, PA

Meeting: 4:00-6:00 PM  
7:00-9:00 PM

Dinner: 6:00—7:00 PM

Must pre-register for dinner reservation.

Please complete and mail the registration form with payment.

**Deadline for registration is Wednesday October 22, 2008**

"Meeting Only" Registrants at the door will be subject to a \$5.00 surcharge.

## REMEMBER, IT IS YOUR RESPONSIBILITY TO CONFIRM THE CHAPTER HAS YOUR RESERVATION

To review the registration list, go to: [www.buxmontpspa.eboard.com](http://www.buxmontpspa.eboard.com) and look at registrants under the meeting tab.

## **Reduced Home Sale Exclusion**

CCH Tax Briefing—Gain from the sales of a principal residence home will no longer be excluded from gross income under Code Sec 121 for periods that the home was not used as the principal residence ("non-qualifying use"). This new income inclusion rule applies to home sales after December 31, 2008, and, under a generous transition rule, is based only on nonqualified use periods that begin on or after January 1, 2009. In further relief from this new loophole closer, a period of absence generally counts as qualifying use if it occurs after the home was used as the principal residence.

Impact. The rule prevents use of Code Sec. 121's exclusion of gain from the sale of a principal residence of up to \$250,000 (\$500,000 for joint filers) for appreciation attributable to periods after 2008 during which a residence was used as a vacation home or as rental property before its use as the principal residence.

## Welcome New Members



Member Give a Member

Dawn Thomas  
Bensalem, PA

repaying the credit by including one-fifteenth of this amount, or \$500, as an additional tax on his or her 2010 return. Eligible taxpayers will claim the credit on new IRS Form 5405. This form, along with further instructions on claiming the first-time homebuyer credit, will be included in 2008 tax forms and instructions and be available later this year on IRS.gov, the IRS Web site.

### Drafts of Corporate and Partnership Tax Forms

[IR-2008-92](#): The Internal Revenue Service has released for public comment draft revisions to Form 1065, U.S. Return of Partnership Income, Form 1120, U.S. Corporation Income Tax Return, and certain related schedules. Included in the release are new Schedule B for Form 1120 and Schedule C for Form 1065. These forms will be for use for tax years ending on or after Dec. 31, 2008.

The draft forms reflect changes suggested in comments received from the initial drafts released in August 2007.

“The draft revisions and new forms will increase transparency about the ownership and relationships between entities that make up complex enterprise business structures,” said Frank Y. Ng, Commissioner of the Large and Mid-Size Business Division of IRS. “This will enable IRS to better assess compliance risk.”

The major change to Form 1120 is to Schedule K and involves reporting direct and indirect ownership. When ownership meets certain percentage thresholds, it must be reported on Schedule K. Certain questions on Schedule K have been revised for this reporting.

The new Schedule B (Form 1120) is required of corporations that file Form 1120 Schedule M-3. Schedule B (Form 1120) will provide IRS information about allocations, transfers of interest, cost sharing arrangements, and changes in methods of accounting.

The major changes to the Form 1065 also involve ownership issues. When ownership meets certain percentage thresholds, it must be reported on Schedule B (Form 1065). The revised Schedule B (Form 1065) will also be used to provide information about cancelled debt, and like-kind exchanges that the partnership may have participated in at any time during the tax year. For small partnerships, the asset threshold for filing Schedules L, M-1 and M-2 with Form 1065 has been increased from \$600,000 to \$1,000,000.

The new Schedule C (Form 1065) will be required of Form 1065 filers that file Schedule M-3. Schedule C (Form 1065) will be used to report information about related party transactions, allocations, transfers of interest, cost sharing arrangements and changes in methods of accounting.

New instructions for Item J of Schedule K-1 (Form 1065) clarify how partnerships determine partners' percentage share in the profit, loss, and capital at beginning and end of the partnership's tax year.

Comment. Rather than require a valuation of the property on January 1, 2009, or at the time use is converted into a principal residence, however, the new law determines excluded appreciation on a pro-rata basis.

The amount of gain allocated to periods of nonqualified use is the amount of gain multiplied by a fraction, the numerator of which is the aggregate period of nonqualified use during which the property was owned by the taxpayer and the denominator of which is the period the taxpayer owned the property. “Non-qualified use” for the computation does not include any use prior to 2009.

Example. Adam buys property on January 1, 2009, for \$400,000 and rents it for two years, claiming \$20,000 of depreciation. On January 1, 2011, Adam begins to use the property as his home. Adam moves out of the house on January 1, 2013, and sells it for \$700,000 on January 1, 2014. The period 2009-2010 is non-qualifying use. The year 2013, after Adam moved out, is treated as qualifying use. Of the \$300,000 gain, 40 percent (two years out of five years owned), or \$120,000 is not eligible for the exclusion. The balance of the gain, \$180,000 may be excluded. The \$20,000 gain attributable to depreciation is recaptured, as required under current law.

### Tax Credit to Aid First-Time Homebuyers

[IR-2008-106](#). First-time homebuyers should begin planning now to take advantage of a new tax credit included in the recently enacted Housing and Economic Recovery Act of 2008. Available for a limited time only, the credit:

- ◆ Applies to home purchases after April 8, 2008, and before July 1, 2009.
- ◆ Reduces a taxpayer's tax bill or increases his or her refund, dollar for dollar.
- ◆ Is fully refundable, meaning that the credit will be paid out to eligible taxpayers, even if they owe no tax or the credit is more than the tax that they owe.

However, the credit operates much like an interest-free loan, because it must be repaid over a 15-year period. So, for example, an eligible taxpayer who buys a home today and properly claims the maximum available credit of \$7,500 on his or her 2008 federal income tax return must begin

## Exemption for Child

[Rev. Proc. 2008-48](#) This revenue procedure describes the circumstances under which the Internal Revenue Service will treat a child of parents who are divorced, separated, or living apart as the dependent of both parents for purposes of §§ 105(b), 106(a), 132(h)(2) (B), 213(d)(5), 220(d)(2) and 223(d)(2) of the Internal Revenue Code when the custodial parent has not released the claim to the exemption for the child under § 152(e)(2).

This revenue procedure applies to taxpayers who:

- .01 Are divorced, legally separated under a decree of divorce or separate maintenance, legally separated under a written separation agreement, or live apart at all times for the last 6 months of the calendar year; and
- .02 Are the parents of a child who:
  - (1) Receives over one-half of the child's support during the calendar year from the child's parents;
  - (2) Is in the custody of one or both parents for more than one-half of the calendar year; and
  - (3) Qualifies under § 152(c) or 152(d) as a qualifying child or qualifying relative of one of the child's parents.

## IRS Revises Voluntary Correction Program for Retirement Plans

The IRS issued updated guidance on the voluntary correction program for employee retirement plans – the Employee Plans Compliance Resolution System ([EPCRS](#)). “Employers and plan administrators want to comply with the tax laws and regulations to protect plan participants,” said Michael Julianelle, director of the IRS's Employee Plans division. “EPCRS helps employers and plan administrators take a proactive role in identifying and fixing mistakes. It also encourages implementation of practices and procedures that ensure retirement plans comply with laws and regulations.” Under EPCRS, plan sponsors and plan professionals can correct certain errors in employee retirement plans, in some cases without having to notify the IRS. Correcting plans in this way allows participants to continue receiving tax-favored retirement benefits and protects the retirement benefits of employees and retirees.

There are three levels of correction programs in EPCRS:

- ◆ The Self-Correction Program ([SCP](#)) permits a plan sponsor to correct insignificant operational failures in plans such as qualified plans, 403(b) plans, SEPs

or SIMPLE IRA plans without having to notify the IRS and without paying any fee or sanction. In many instances, a plan sponsor may correct significant operational failures without notifying the IRS and without paying a fee or sanction.

- ◆ The Voluntary Correction Program ([VCP](#)) allows a plan sponsor, at any time before an audit, to pay a limited fee and receive the IRS's approval for a correction of a qualified plan, a 403(b) plan, SEP or SIMPLE IRA plan.

- ◆ The Audit Closing Agreement Program (Audit CAP) allows a sponsor to correct a failure or an error that has been identified on audit and pay a sanction based on the nature, extent and severity of the failure being corrected.

In revising the EPCRS revenue procedure, the IRS incorporated comments from the retirement plans community by adding flexibility and increasing correction methods. The new guidance, which is a revenue procedure, makes the following improvements:

- ◆ Expands the availability of SCP in situations where operational mistakes have been partially corrected when the plan comes under examination. Also, new examples relating to the exclusion of employees from 401(k) plans have been added to the standardized corrections. The new examples will benefit those who use SCP to correct the failures described in those examples.

- ◆ Establishes streamlined application procedures under VCP for numerous issues, including failure to amend plans for law changes, loan problems, failure to make minimum distributions to participants, excess elective deferrals made by participants to 401(k) plans and plans established by ineligible employers. In addition, streamlined application procedures have been developed for SEPs, SARSEPs and SIMPLE IRAs.

- ◆ Includes a sample application format that may be used for all other VCP applications. “These revised application procedures should make the correction programs more accessible to small business employers,” said Joyce Kahn, who directs the voluntary compliance program. “Also, we anticipate that the new procedures will facilitate an expedited review of a significant number of VCP applications.”

Makes it easier to correct loan failures under VCP. Loans that violate section 72(p) of the Internal Revenue Code may still be corrected even if the loans do not violate the terms of the plan. Also, in many cases, the fee under VCP for correcting loan failures will be reduced by 50 percent.

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## Chapter Profile

The Buxmont Chapter is the PA Society of Public Accountants' largest chapter, representing over four hundred Certified Public Accountants, Public Accountants, Enrolled Agents and tax practitioners in the Bucks and Montgomery Counties of Southeastern PA. If you are a small practitioner in search of an organization interested in your needs, you'll want to consider the Pennsylvania Society of Public Accountants.

## Chapter Meetings

Meetings are generally held on the fourth Tuesday of the month at Williamson's Restaurant, Route 611 & Blair Mill Rd, in Willow Grove, PA (unless otherwise noted)

<b>Dinner &amp; Meeting:(2 Hr.)</b>	<b>Member \$25.00</b>	<b>Non-member: \$49.00</b>
<b>Dinner &amp; Meeting:(4 Hr.)</b>	<b>Member \$35.00</b>	<b>Non-member: \$59.00</b>
<b>Meeting Only: (2 Hr.)</b>	<b>Member \$15.00</b>	<b>Non-member: \$39.00</b>
<b>Meeting Only: (4 Hr.)</b>	<b>Member \$25.00</b>	<b>Non-member: \$49.00</b>

## 2008 Gear-UP Seminar Programs

Seminars are held at the Radisson Hotel located at 2400 Old Lincoln Highway, Trevose, PA (1/4 mile south of PA Turnpike Interchange 351)

- ◆ Business Entities—16 CPE Hours Tax  
Monday & Tuesday, October 20-21, 2008
- ◆ 1040—16 CPE Hours Tax  
Thursday & Friday, December 4 & 5, 2008



## 2008 Chapter Program Schedule

- ◆ Local Tax Panel - 4 HR CPE Tax  
Tuesday, October 28, 2008
- ◆ Annual Ethics and IRS Update - 2 HR CPE  
Richard Furlong, IRS  
Tuesday, November 25, 2008
- ◆ Fraud - 2 HR CPE A&A  
Martin Moran, PNC Bank  
Tuesday, December 16, 2008
- ◆ Federal Reserve - 2 HR CPE Tax  
Herb Taylor  
Tuesday, January 27, 2009